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National Farmers Union Submission
to the Canadian International Trade
Tribunal on the subject of An
Inquiry into the Allocation of
Import Quotas presented in Ottawa,
Ontario, for hearings commencing
June 8, 1992

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national farmers union

In Union Is Strength



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Submission

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An Inquiry into the Allocation of Import Quotas

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INTRODUCTION:

We appreciate the opportunity to present our views to this Tribunal examining the policy of import quotas on supply-managed farm products.

We wish, at the outset, to thank this Tribunal for extensive and exhaustive studies it has commissioned or undertaken internally in assembling an impressive volume of detailed information and potential choices that can be considered as alternatives to the import quota issue. They have provided valuable insights but unfortunately little comfort to primary producers.

The National Farmers Union is a direct-membership voluntary organization of farm families. The members of the NFU, therefore, have a direct interest in food production for their livelihood. While we do not classify members into various types of commodities they produce, there are nonetheless many who are engaged in the production of supply-managed products in the dairy and feather industries. Consequently, farmers have a direct interest in the outcome of deliberations, perhaps more than other participants at these hearings.

It is to a large extent the future of farmers' livelihoods that is being examined in these hearings. It is not, we fear, to improve their incomes or enhance their bargaining power in the marketplace that will emerge as the bottom line of these deliberations.

MANDATE FOR THIS INQUIRY:

The preamble to the Privy Council resolution of August 13, 1991 which establishes the terms of reference for this inquiry notes that "concerns have been raised respecting, inter alia, the efficiency equity, transparency and market responsiveness of current methods for the allocation of import quotas...." It additionally refers to recommendations contained in reports of the National Poultry Task Force and the National Dairy Task Force, both of which recommended that current methods of import allocations in respect of poultry and dairy products be reviewed.

Recommendations contained in these two Task Force reports were hostile to the economic interests of farmers and reflected the increasing pressure that has been exerted upon the operations of Canada's supply-managed programs, particularly since the passage of the Canada-U.S. Trade Agreement of January 2, 1989 by the vested interest groups that constitute the users of farm raw product.

The Privy Council resolution requested this Tribunal to consider:

- (a) the methods by which import quotas have been allocated, for example, on the basis of traditional or historic imports, of market share, of earmarking shares for further processors of products not on the import Control List, as well as other possible methods by which to allocate import quota, for example, through auction;
- (b) the impact different quota allocation methods have had or might have on the market place and on the competitive behaviour of its participants;
- (c) whether the method by which import quota is allocated should differ as between the various agricultural products subject to import control;
- (d) whether the method by which import quota is allocated should apply to the issuance of supplemental import permits;
- (e) that Canada has international rights and obligations under bilateral and multilateral trade agreements.

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A FIGHT FOR SURVIVAL:

As farmers, we are not primarily concerned by what method current import quotas are now allocated or may be allocated in the future. It seems quite apparent from evidence of earlier hearings that those firms which currently are privileged in holding import quotas are prepared to live with the status quo while others who wish to have quota are not.

Further, we do not see the outcome of this inquiry to be one wherein the status quo of the present Global Import Quota will be merely shifted around to appease those who may seek privilege at the expense of those who already are well looked after.

We are very conscious of the unrelenting pressure that has been exerted upon marketing agencies by the trade which reflect its general hostility toward this system of production, marketing and pricing but which has succeeded in generating a great deal of price and income stability to the farm sector.

For example, the May 25, 1992 edition of The Financial Post reported the Kentucky Fried Chicken Corporation as having "quietly notified the U.S. Office of the Trade Representative that unless Canada's chicken barriers are brought down in current trade negotiations, it will file a '301 petition' under U.S. trade law."

Such an action, it is stated, would enable Washington to formally complain to the trade referee of the General Agreement on Tariffs and Trade and also vest the U.S. with retaliation rights, such as establishing countervailing duties on Canadian food exports.

Ottawa trade consultant, Peter Clark, is quoted as stating that if KFC files its action and wins, "it would blow apart Canada's supply-managed system for chickens."

Scott's Hospitality Inc. Vice President Bruce Dobbs echoes KFC's plans to destroy Canada's marketing board system. He is quoted in the same Financial Post article as stating: "We certainly would like to see marketing boards reviewed and, ideally removed."

These recent examples of marketing board bashing are by no means isolated incidents of anti-marketing board rhetoric emanating from representatives of the trade and consumer groups, but we believe these statements bear particular notice at a time when this Tribunal is in the final process of exhaustive hearings on the import quota issue.

While a periodic shortage of chicken is stated as being the source of the KFC complaint, it is fairly obvious to us that it much prefers increased import quota rather than additional domestic supplies.

The economic rent associated with import quotas is extremely profitable for quota holders as is illustrated on Page 47 of the Deloitte & Touche reference study "Economic Framework to Measure Impact of Import Quota Allocations" (December 1991). The summary table of its estimates of total economic rents by commodities for 1991 totals \$268.75 million. It appears on the following page.

The economic rent estimates represent the difference between domestic and import prices. However, the total loss to farmer income as a consequence of deliberately following a policy of importing and reducing our self-sufficiency in the production of these products is much greater.

The KFC threat to launch a trade petition to the GATT on the chicken issue follows earlier action launched by the U.S. Trade Office on the import quotas related to ice cream and yogurt.

Ice cream and yogurt were placed on the Import Control List by the federal government in January, 1988 following the decision by a GATT trade panel that Article XI did not protect, under our import quotas, processed or manufactured

Estimates of Total Economic Rent by Commodity

Commodity Group	1991 Global Import Quota	Per Unit Economic Rents	Total Economic Rents
All Chicken	42,745,033 kg	\$1.50/kg	\$64.12 million
Live Chicken	1,485,000 kg ¹	\$0.27/kg	\$0.40 million
Eviscerated Chicken	3,719,000 kg ¹	\$0.76/kg	\$2.83 million
Bone-in Parts	17,282,000 kg ¹	\$1.60/kg	\$27.65 million
Boneless Parts	14,392,000 kg ¹	\$1.90/kg	\$27.34 million
All Turkey	4,406,178 kg	\$1.00/kg	\$4.41 million
Live Turkey	1,750,000 kg ¹	\$0.45/kg	\$0.79 million
Boneless Parts	2,041,832 kg ¹	\$1.25/kg	\$2.55 million
Shell Eggs	7,033,581 doz	\$0.49/doz	\$3.45 million
Processed Egg Products	1,761,691 kg	\$0.10/kg	\$0.18 million
Broiler Hatching Eggs	7,022,067 doz	\$0.76/doz	\$5.34 million
Chicks	14,108,366	\$0.19/chick	\$2.68 million
All Cheese	20,411,986 kg	\$3.00/kg	\$61.24 million
Cheddar Cheese	476,000 kg ¹	\$1.80/kg	\$0.86 million
Processed Cheese	2,745,000 kg ¹	\$3.00/kg	\$8.24 million
Specialty Cheese	15,995,000 kg ¹	\$3.50/kg	\$55.98 million
Yoghurt	334,267 kg	\$1.80/kg	\$0.60 million
Ice Cream	352,150 kg	\$0.20/kg	\$0.07 million
Buttermilk	907,000 kg	\$0.01/kg	\$0.01 million
Condensed Milk	11,808 t	\$0.50/t	\$0.01 million

¹ Total import quotas for all chicken, all turkey and all cheese are totals for 1991. Sub products within these groups are for 1990 and therefore do not add up to 1991 totals.

products of milk. The I.C.L. is but a temporary reprieve to the difficulties that potentially confront us.

Much hangs in the balance pending the outcome of final negotiations for a renewed GATT. The strengthening of Article XI, as has been repeatedly requested by all major farm organizations in Canada, is an elusive objective that will probably not be attained. The proposals for the conversion of import quotas to a system of tariffication would sound the eventual death-knell for our supply-managed boards.

In this regard, the Deloitte & Touche report on "Potential Implications of Tariffication on Existing Border Controls" anticipated the implications of tariffication. It notes that the current tariff-free global import quotas would remain as part of Canada's obligations of providing access commitment within the GIQ and that duty rates within the GIQ cannot be increased. The tariff equivalent quota (TEQ) would be in addition to the GIQ. An importer who does not currently hold GIQ may then be able to access imports through the TEQ.

An effective TE rate, states the report, would replace all supplementary quotas needed to supplement global import quotas to serve the needs of the Canadian marketplace. Any importer willing to pay the TE rate, states the report, would have import supplies automatically assured to processors for further processing or to import product that is eventually exported.

It is quite clear that greater access for imported products would be assured under a GATT tariffication provision and that, in turn, will negatively impact upon the present operation of supply-managed products and distort the adjustments these industries have made to live within the operating framework of global import quotas. A key point made in the Deloitte & Touche report sums it up as follows:

"Since the import price establishes the maximum domestic price under tariffication through the TE, the current cost of production based pricing for primary products will have to be replaced by a pricing formula that accounts for the tariff equivalent rate. Any other approach is not sustainable, unless the tariff equivalents are not effective (i.e. higher than the import quota rents).

"The quota rents to importers should also decrease to holders of import quota by the same amount. Thus, if the quota rent to a holder was close to the potential \$1.00/kg., then the quota rent under tariffication should decrease at least the TE value of \$.64/kg."

While this particular comment was made in specific reference to the tariffication impact on chicken, the principle applies to all farm products that are produced under a pricing formula.

As the downward pressure continues on pricing and the controls over imports are loosened and become more discretionary for importers under a tariffication rate, supply-managed boards no longer can effectively control either prices or production quotas. We anticipate predatory pricing among various processors, further processors and importers of all descriptions will become the order of the day, corporate takeovers will concentrate market share among fewer players and there will be a sharp decline in the number of domestic producers. As the economic factors for farmers worsen, a sharp increase in vertically-integrated production units, particularly in the feather industries, will swiftly duplicate the pattern of U.S. production models.

We are battling against the prospects for lower farm product prices combined with the prospects of declining production quotas and rising production costs. We are one step away from being forced to return to the production, marketing and pricing jungle that existed prior to the establishment of these agencies. We might well end up "throwing out the baby with the bath water".

The federal government, in its current agricultural policy reviews, has laid great stress upon competition as the panacea for developing an efficient agricultural industry. But as we know only too well, competition destroys profits.

The true measure for our efficiency as producers can only be assessed if all conditions for production are similar to those of our competitors, including such factors as interest and exchange rates, housing costs, taxes, labour costs, and so forth. The cost-of-production formulas which have been employed in our supply-managed

programs have, as a matter of fact, forced increasing efficiency upon us under the cost structure that applies to our circumstances.

If this Tribunal has any concern over the potential havoc that will be unleashed upon the farm community should an increasingly market-oriented import policy be implemented, it must consider appropriate and adequate safe-guard measures that will prevent the collapse of our production industries which would result in the loss of hundreds of millions of dollars in the value of farm assets and annual farm income.

CONCLUSION:

Our survival is the bottom-line issue at stake in these hearings.

Consequently, we believe a strong moral obligation rests upon this Tribunal to look beyond the superficial commercial interests for maximization of profit opportunity being pleaded by the commercial industry stakeholders participating in these hearings.

There are important social, as well as economic interests, confronting thousands of rural communities across this nation that will be affected by the course of events launched by your conclusions. We trust they will be tempered by Justice and Equity.

All of Which is Respectfully
Submitted by:

NATIONAL FARMERS UNION

CANADIAN PUBLIC POLICY AND ADMINISTRATION

FALL TERM ASSIGNMENTS

NEWSPAPER CLIPPINGS:

Prepare a scrapbook of current newspaper clippings on the policy area which you have drawn in the lottery. These clippings should be accompanied by a commentary showing the items in the newspaper that relate to the course material.

- * Use one of the three main daily Toronto newspapers (the Sun, the Globe & Mail, the Star).
- * Additional material can be included from neighbourhood newspapers, Canadian magazines, business newspapers, Toronto weekly no-price newspapers, newspapers from other Canadian cities. Additional material should not make up more than 25% of the collection (except in consultation with the TA).
- * There is no fixed or expected number of clippings that you should have. However, it would be unlikely that you could not find 20 appropriate clippings over the first few weeks of the course. In order to prevent the project from becoming unmanageable you should probably not have more than 75 clippings.
- * This is not a research project. You are not expected to include material from before the beginning of the course (although in a few cases, in consultation with the TA, that may be appropriate).
- * In general the clippings should be presented in chronological order. (The clippings should, therefore, be dated.) However, if two or more articles can be used to illustrate complementary or contrasting points they can be placed side-by-side regardless of date.
- * The presentation should be orderly and manageable for the reader. Clippings glued or taped into an inexpensive, newsprint style scrapbook would be best. The number of clippings per page will depend on whether they can be presented in a clear and orderly way.
- * The commentary should be on the same page as the clipping.

I should be relatively brief (but should be in complete sentences). It can (perhaps should be) hand written. It can be written as a summary paragraph at the bottom of the page OR it can be with arrows and side-bar comments around the clipping OR both. Further, in consultation with the TA, you can use your approach to presenting the commentary if you have creative ideas.

- * The commentary can include, in order of increasing value, the following:
 - i) simple identification of policy actors or policy related items such as pieces of legislation;
 - ii) some acknowledgement of where the actor fits in the policy community (are they a state or societal actor; if a state actor what kind are they -- parliamentary, regulatory agency, central agency, task force or whatever; if societal actor are they institutionalized or issue oriented; are they likely in the sub-government or in the attentive public);
 - iii) the kinds of resources or capacities for these actors can you observe from the newspaper (tasks & mandate, technical capacity, clients & constituencies, policy capacity, coordinating capacity);
 - iv) deeper insight into the articles that you develop from looking at the developing collection of clippings and your growing understanding of the issue. You can also include ideas that you can draw from what you learned in Political Science 100/103 or other political science courses. You can also draw on the research you are doing for the briefing note.

THE BRIEFING NOTE:

"Briefing note" is a general term for a document that gives background information to a Cabinet Minister in order to give them a "brief" overview of a given situation. There is no fixed format for a briefing note -- that depends on the prevailing practices within a given department, what the Minister prescribes, or even the nature of the situation. However, there are some workable criteria:

- 1) It should be well and clearly written. All the standard rules of good English apply including spelling, complete sentences, appropriate use of words and so on.
- 2) It should be reasonably accessible at any point. That is, if the Minister flips to page 3 and begins reading, the note should make some sense right away. Therefore the presentation and format are important.
- 3) The format should use:
 - a) headings and subheadings so that the Minister can instantly get an idea of what is being presented,
 - b) white space and varying margins in order to set ideas apart from each other,
 - c) relatively short paragraphs so that the Minister does not have to invest a lot of time in following a complex idea,
 - d) "bullet points" to highlight a series of related but briefly expressed ideas (these should still be in complete sentences or series-sentence format not point form).For an example of a possible format see the Treasury Board Secretariat reading in section 12 of your reader.
- 4) It should be about the length asked for -- about 8 pages (or about 2000 words). Something shorter doesn't do the job asked for; something longer takes more time than the Minister has patience for.
- 5) Graphs and charts can be used but sparingly. They should not be used to fill space but only when they can convey information more effectively than words.

This assignment is necessarily only part of a possible briefing note (since you are only part way into the course, more will be included next term). The present task is just to present information on the policy actors. In the briefing note you will want to have a more developed idea of who the actors are than what you can get from the newspaper clippings (the clippings are too random and too dependent on what the journalist decides to include). Therefore you must do some research.

Research:

- 1) The first source you should consider is the annual reports of the relevant department (in some cases more than one department). Samples of these can usually be found in the

Government Publications section of Robarts Library. These annual reports will give you a format for the department, who some of the state actors are, some of the subject areas of the department (which is a clue to what societal actors may be involved) and sometimes some societal actors.

- 2) Also in Government Publications you can peruse the transcripts of the relevant parliamentary committee meetings to get an idea of who appears before the committees. This is a useful way to find out who some of the key societal actors are.
- 3) Browse through the subject index of the University Library computer. There are standard books on each of these topics and they can provide important background information.
- 4) In the University Library or perhaps in the Metro Reference Library there may be magazines or newsletters which are published by various societal actors from which you can draw information.
- 5) Use the telephone. Phone those actors which you have identified and see if they have a pamphlet or brochure that will tell you something about them.
- 6) Use your imagination.

What you must include:

You can use the same hierarchy of ideas that was listed for the newspaper clippings. Therefore you should present and explain to the minister:

- i) who the actors are;
- ii) where they fit in the policy community;
- iii) what resources or capacity the actors have;
- iv) what their importance is and their broader role with respect to the policy process.

Hints:

- 1) Canada is a federal country.
- 2) Not all groups are equal.
- 3) There is more information than you can use.

